

Weekly Update

Fed-up

ABENOMICS NO MORE

Japan's PM steps down

YOU'RE STILL THE (PHASE) ONE

US-China trade relations

TECH-REG

A new leg of scrutiny?

DOW AND OUT

The index gets a shake-up

A GOOD WEEK FOR

- US equities, which rallied c. +1.5% in GBP terms.
- Sterling, which gained 2% against the US dollar.

A BAD WEEK FOR

- Japanese equities, which weakened c. -1%.
- The US dollar, down c.-1% against a basket of currencies.

MONETARY POLICY

US Fed chair Jerome Powell announced changes to the Federal Open Markets Committee's (FOMC) inflation framework. The announcement coincided with the annual Jackson Hole symposium of leading economists, and presented the results of an 18 month review undertaken by Fed staff. The FOMC is changing the phrasing of its Statement of Longer-Run Goals, or inflation mandate. The inflation target has been replaced with an average inflation target, suggesting that the FOMC may not raise interest rates if inflation levels overshoot the 2% target. The language around employment was also modified, emphasising a willingness to allow above-potential growth without applying the monetary brakes. The market response to these measures was pronounced – the US dollar weakened, in anticipation of lower interest rates for longer, and expectations of inflation in future increased. While the Fed's new framework does make higher inflation possible, it does not clearly supply a mechanism for generating that inflation.

JAPANESE ECONOMY

Against a weak economic backdrop, the Japanese economy faces a further source of uncertainty, as Prime Minister Abe announces his intention to step down due to ill health. The news comes in the same week as Japanese core inflation slips back into negative territory, a problem Japan has faced before. Economic policies introduced by Abe after the 2012 election, known as Abenomics, have been credited with supporting growth in Japan. The "three arrows" included monetary easing, fiscal stimulus and economic reform. The announcement caused the Japanese yen to rally sharply, as investors priced in the chance of less monetary support. However, given the weak outlook for Japanese growth, it is unlikely that these measures will be withdrawn soon. The path of fiscal policy will likely be decided at the September election.

US-CHINA TRADE

US and Chinese trade envoys used the biannual review to reaffirm their commitment to the Phase One US-China trade deal signed in December. Both sides reportedly agreed to create conditions to push the deal forward, according to Chinese officials. This statement of cooperation appears at odds with the persistently fractious tone of political relations between China and the US. China is far behind on import targets of US goods, having completed less than half of the year's quota, but progress has been made elsewhere. China has modified regulations to allow US farm and food imports, relaxed financial market barriers for US companies and introduced measures to strengthen intellectual property rights.

TECHNOLOGY REGULATION

US lawmakers continue to discuss whether greater tech regulation is required and what form it should take. The ongoing US Department of Justice investigation into Google is currently focussed on whether the firm bundles services together in order to maintain a dominant position. Meanwhile David Cicilline, Democrat chair of the House antitrust panel, has spoken out about the need for "Congress to take action" against "disturbing" practices. Talk of stringent regulations from Democrat lawmakers ahead of the election may give a taste of the sort of policies Joe Biden may try and introduce. Rules may focus on separating different parts of businesses to protect consumers.

DOW JONES

The biggest reshuffle in seven years saw a number of well-known companies removed from the Dow Jones industrial average index. The index of 30 firms is the second oldest in the world and well-followed, though it no longer consists of only industrial companies. Its constituents are weighted by share price rather than market capitalisation, with lower-priced stocks companies dropping out. Casualties of the most recent shake-up are Pfizer, Raytheon Technologies and oil firm ExxonMobil, which was the world's largest company as recently as 2011. In their place, the Dow welcomes Honeywell, Salesforce and Amgen. These changes highlight the upheaval in financial markets that the pandemic has caused, as investors look to future trends to drive growth.

Performance

EQUITIES

	1 WEEK			MTD			YTD			1 YEAR		
	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.	£	Loc.	Rel.
UK	-0.7%			1.5%			-20.3%			-15.0%		
US	1.3%	3.2%	-1.9%	5.6%	7.5%	-1.8%	10.5%	11.0%	-0.5%	14.5%	24.8%	-10.2%
Europe	0.2%	1.1%	-0.9%	3.0%	3.9%	-0.9%	-1.2%	-6.3%	5.0%	2.3%	3.8%	-1.5%
Japan	-1.2%	0.1%	-1.3%	5.7%	7.1%	-1.4%	-2.2%	-4.8%	2.6%	2.1%	10.6%	-8.5%
Asia ex Japan	0.9%	2.1%	-1.2%	3.3%	4.4%	-1.1%	6.0%	6.2%	-0.3%	11.7%	18.5%	-6.8%
EM	0.8%	2.2%	-1.3%	2.3%	3.9%	-1.6%	1.8%	6.2%	-4.4%	9.2%	20.1%	-10.9%

FIXED INTEREST AND CURRENCIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Corporate and Government Bonds								
UK Gov	-1.2%		-3.2%		6.5%		2.2%	
US Gov	-0.7%		-1.5%		8.7%		6.6%	
Europe Gov	0.3%		-0.4%		8.2%		7.0%	
UK Index-Linked	0.0%		-4.5%		8.1%		-3.4%	
UK Corporate	-0.5%		-1.0%		4.5%		4.0%	
UK High Yield	0.3%		1.2%		-1.5%		2.6%	
Currencies – Spot								
USD – GBP	-2.0%		-2.0%		-0.7%		-8.5%	
EUR – GBP	-1.1%		-1.0%		5.4%		-1.7%	
JPY – GBP	-1.5%		-1.5%		2.4%		-7.9%	

	YIELD
	Local
Sovereign and Supranational Bonds	
10 Year Gilts	0.31%
10 Year Treasuries	0.71%
10 Year Bunds	-0.40%

COMMODITIES

	1 WEEK		MTD		YTD		1 YEAR	
	Local		Local		Local		Local	
Energy								
Brent	1.6%		4.0%		-31.7%		-25.5%	
Precious Metals								
Gold	1.3%		-0.6%		29.5%		27.7%	

IMPORTANT INFORMATION

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

The information contained in this document is believed to be correct but cannot be guaranteed. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided, Close Brothers Asset Management accepts no responsibility for the content of such websites nor the services, products or items offered through such websites.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of the Close Brothers Group plc group of companies, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86. CBAM6100. 02.09.2020.